

First Steps Kent response to RFI on behalf of Kent County
“Social Impact Bonds – Pay For Success Based Financing”

Michigan RFI #0071141113B0000535

First, we wish to express our thanks and appreciation to Governor Snyder for his interest in and commitment to early childhood. Michigan’s historic investment in publicly-funded preschool is a source of pride that will give families and communities “the runway to do it the right way.” The prospect of this Social Impact Bond initiative will provide new and innovative ways to bolster private investment in proven effective programs while leveraging government costs savings in support of successful outcomes.

Great Start Preschool Scholarship (GSPS) Program Description

Since its 2011 launch, eligible families have been able to secure subsidized slots at area preschools with the help of the scholarship program. All of the 16 sites are in areas of high need, most of which are located inside the city of Grand Rapids. All serve vulnerable children at 250% of the federal poverty level (FPL) and below. Some children attend part-time while others attend full-day preschool, depending on need and parent preference. All of the children qualified for state or federally subsidized educational programs. The preschool curriculum varied from site to site but all are licensed, regulated care that meets specified Michigan standards of quality.

The GSPS Fund launched with \$400,000 in federal stimulus funds made available as a 1:1 match through the Early Childhood Investment Corporations (ECIC). The matching funds were provided by resources from private philanthropy - including PNC Bank, Frey Foundation, the Douglas and Maria DeVos Foundation and the W.K. Kellogg Foundation as well as in-kind match from the Heart of West Michigan United Way.

In partnership with Grand Rapids Public Schools, Great Start Collaborative and other community partners, First Steps Kent managed Kent County’s Great Start Preschool Scholarship Fund (Kent - GSPS) that supported three-year old children in Grand Rapids area preschools with “last dollars in” scholarships to attend high-quality preschool.

With very little marketing, using the same eligibility criteria as GSRP, Kent - GSPS placed 121 children in private community based organizations (CBOs) and school programs. The expansion of the Great Start Readiness program (GSRP, Michigan’s publicly funded preschool for at-risk 4 year olds) into more CBOs will allow many more young children to experience a seamless transition to high quality preschool at age 4. In addition, the quality improvements made in CBO based GSRP classrooms through the Great Start to Quality system also benefit the three year olds in neighboring classrooms.

Having begun its third cohort in the 2013-14 school year additional resources and more stable funding is needed to sustain the program for the longer term.

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Evaluation Methods

An external, independent evaluator used mixed methods to determine child progress and related influence for parents. The evaluation design included two cohorts: children, age 3, who received scholarships in 2011-12 and 2012-13.

Children were assessed using standard, credible instruments (valid and reliable), specifically, the Peabody Picture Vocabulary Test (PPVT) and the Phonological Awareness Literacy Screening (PALS). The PPVT is a reliable assessment for receptive oral language for children ages 2.5-5 years. It was administered both pre- and post-intervention. The PALS provides related information on several areas of phonological literacy (e.g.; rhyming, letter sounds). It was used with children ages 4-5, at the end of the program. In addition to these quantitative methods, parents and preschool providers participated separately in facilitated focus groups aimed at program influence and improvement.

As a prospective candidate for a pay-for-success model, Kent County’s Great Start Preschool Scholarship (GSPS) program meets the technical requirements outlined in the RFI in the following ways:

Availability of performance measures for assessing outcomes.

GSPS’ external, independent evaluator used mixed methods to determine child progress and related influence for parents. The evaluation focused on measuring language growth and pre-literacy skills which has been proven to be highly correlated with school success. The evaluation design for the most recent years include two cohorts: children, age 3, who received scholarships in 2011-12 and who attended GSRP or Head Start as 4 year olds in 2012-13. Children were assessed using standardized, credible instruments (valid and reliable), specifically, the Peabody Picture Vocabulary Test (PPVT) and the Phonological Awareness Literacy Screening (PALS). The PPVT is a reliable assessment for receptive oral language for children ages 2.5-5 years. It was administered both pre- and post-intervention. The PALS provides related information on several areas of phonological literacy (e.g., rhyming, letter sounds). It was used with children ages 4-5, at the end of the program. In addition to these quantitative methods, parents and preschool providers participated separately in facilitated focus groups aimed at program influence and improvement.

The use of comparison groups would enhance the evaluation’s rigor, and is a priority. Although not a part of current GSPS evaluation, other First Steps programs have used methodologies that document cost-benefit ratios based on savings relative to costly outcomes that would have occurred in the absence of the scholarships (e.g., higher special education costs, lower grade retention and remediation costs, etc.).

GSPS Fund program outcomes

Child Learning

Figure 1 below shows the changes in PPVT scores for cohort 1 (over a two-year period). Federal early literacy programs use a 4-pt gain on the PPVT as a standard for an “effective” intervention. ***Children in***

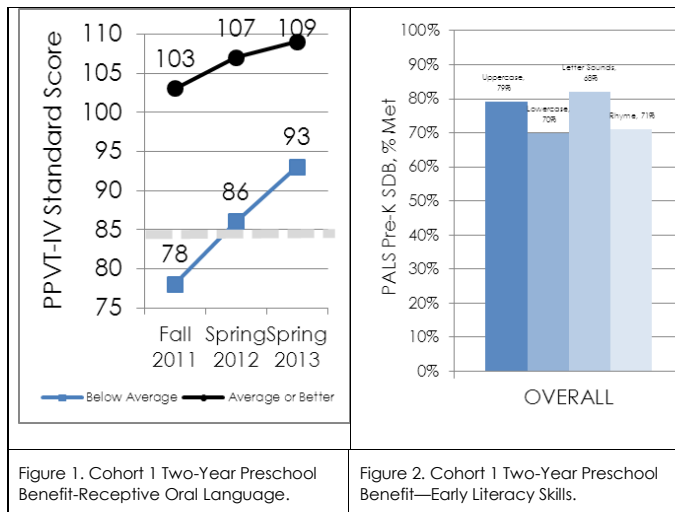
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this preschool effort gained, on average, 6 points. Those children with the lowest scores gained more than double (15 points) their local peers and nearly four times the federal standard. This figure demonstrates both the gains as well as the enduring effect of preschool in the critical pre-Kindergarten years. It shows the most vulnerable children begin school with a “running start.”

Comment [LF1]: Reiterate the measure chosen for its relevance to literacy and readiness

Figure 2 below shows selected early reading readiness skills (via PALS) at the end of a preschool year. Most kids who participated in preschool met developmental benchmarks and are Kindergarten-ready.



Parent & Provider Perspective

Parents report important gains by their children across both cognitive and psycho-social domains. For example, vocabulary, inquiry, reading interest, fine motor skills, self-esteem, and confidence were influenced. Parents indicate positive changes in attitudes regarding school and learning. Participation in preschool enables early identification of children’s special needs at a time when connection to special education services can have the greatest impact. In addition to the direct benefits for children, preschool also contributes to families by enabling employment, college education, child safety, cost relief and provides care in a high quality setting.

Preschool providers report that parents need child development information and community resources. In addition, they note parents value the connection to preschool staff and are deeply grateful for the opportunity the scholarship offers.

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Program evaluation data indicates the following:

- Those children with the lowest scores gain the most from preschool
- 3 year olds have significant gains in oral language
- 3 year old gains in oral language correlate with and endure for Kindergarten
- Preschool for 3 and 4 year-olds, contributes to reading readiness for 75 % of participating children

The preschool scholarships were effective in providing opportunity for vulnerable children to receive an intervention that influencing the receptive oral language and phonological skills of participating children most needed for k-readiness. **The children in the scholarship program who need preschool the most, benefit the most.** In effect, it ensures a “running start” for those children who need support and otherwise are unlikely to have access to early learning. The preschool experience is also highly valued by parents as a support for family progress and success.

A strong evidence base indicating that the intervention model is likely to achieve the outcome targets.

Significant longitudinal research, conducted nationally and here in Michigan, has shown that the societal and financial benefits of two years of quality preschool has more than double the rate of return. Indeed, more than 40 years of longitudinal study of the highly effective Perry Preschool Program, a model that includes preschool at ages 3 and 4, have shown that success and savings is even greater over time. At age 27, the societal cost-benefit ratio for former Perry Preschoolers was 1:7, that is, for every dollar spent on the two year preschool program, \$7 in benefits was returned in the form of reduced special education costs, reduced remediation and grade retention as well as longer term outcomes such as 44% higher high school graduation rates, 27% fewer out-of-wedlock births and half the teenage pregnancies.

In addition, at the age 40 follow up study, the former Perry Preschoolers had 42% higher median monthly incomes, were 26% less likely to have received government assistance in the past 10 years, experienced 33% lower arrest rates for violent crimes and were 46% less likely to have served time in jail or prison. “Overall, the (age 40) study documented a return to society of more than \$16 for every tax dollar invested in the (2 year) early care and education program.” (Heckman, Moon, Pinto, Savelyev & Yavitz, 2010)

A sufficient and well defined participant base – 200 per year minimum.

The GSPS Fund targets children in low income urban neighborhoods; using the same eligibility criteria as GSRP (250% FPL and/or slightly higher income families with certain other risk factors, e.g., English Language Learners, children with identified developmental delays, etc.). Currently the program serves just 2% of an estimated 5,900 eligible 3 year olds in Kent County – another 9% of these

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3 year olds are served by Head Start. This leaves a gap of more than 5,300 eligible 3 year olds. The average scholarship is \$2,750 per child, however with increased interest by school districts in serving 3 year olds, the average may decrease slightly over time as many school districts are able to provide existing infrastructure and supports at a lower cash cost to the scholarship fund. The need is there and as districts and CBOs add capacity to accommodate the state’s expanding GSRP program for 4 year olds – re-opening closed schools and/or retrofitting others – it may benefit capacity for 3 year old programs as well. Grand Rapids Public Schools has been an active and engaged partner in other early learning initiatives in partnership with First Steps and is a potential major partner in this initiative.

Ability to take the initiative to scale if results show that the initiative is working.

The Scholarship Fund facilitates the participation of vulnerable children in families in a proven intervention that otherwise could not afford high quality preschool, and builds on existing infrastructure while resting on a body of research that suggests a measureable return on investment. In our view, the GSPS Fund is only limited by sustainable funding and the capacity of preschools to open additional classrooms. With a steady stream of funding, school systems and CBOs would be more confident and willing partners in scaling the effort.

Below are details for the savings in grade retention and special education costs compared to the cost of the average GSP scholarship.

Clear and identifiable state budgetary savings.

State budgetary savings have been documented in more than 40 years of evidence on the societal benefits and government savings for Perry Preschoolers receiving 2 years of high quality preschool. At age 27, Perry preschoolers saved \$19,250 (or 7 times the cost of one preschool scholarship) per year for two years of preschool. By age 40, Perry preschoolers saved \$44,000 per year or 16 times the cost of the average GSP scholarship.

Savings in grade retention costs: Michigan’s Great Start Readiness Program (GSRP) for 4 year olds has proven its benefits to the vulnerable children it serves, their families and Michigan taxpayers. According to “*Michigan GSRP Evaluation 2012: High School Graduation and Grade Retention Findings*,” Michigan public schools spend \$11,987 for every grade a student repeats while the state spends \$3,400 per student (in 2012) to participate in the one school year GSRP, just 28% as much. So for every dollar spent on a GSRP preschooler \$3.50 is saved in grade retention costs. For the average 3 year old scholarship recipient, for every dollar spent on scholarships, \$4.35 is saved in grade retention costs.

Savings in special education costs: Michigan’s (2007 data) average costs for special education occurs in two categories: 1. For students in general education that receive special education (SE) services (i.e., they are not in a special education classroom, but rather are pulled out for SE services) the per pupil cost averages \$5,062 per year. 2. For students in a special education classroom full time, the average

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cost is \$11,239 per student per year. So for every preschool scholarship dollar spent, \$1.84 is saved on the cost of a student in general education with SE services. Or for every preschool scholarship dollar spent, \$4.09 is saved on special education classroom costs.

Based on this body of research and its implications for significant return on investment, First Steps Kent recommends that the State consider using Social Impact Bonds- Pay for Success Based Financing to leverage the societal and financial benefits of two years of quality preschool by investing in preschool scholarships for vulnerable three-year olds where most also have GSRP classrooms operating.

Stakeholders and other parties interested in [early childhood](#) SIBs

Local & State Governments: ***Grand Rapids Public Schools, Kent Intermediate School District (KISD, includes 22 local districts), Kent County Family & Children’s Coordinating Council (KCFCCC) – a collaboration of local Directors of state agencies; Office of Great Start (OGS), Michigan Department of Education (MDOE)***

Philanthropy: ***Frey Foundation, Steelcase Foundation, Grand Rapids Community Foundation, Heart of West Michigan United Way, Douglas and Maria DeVos Foundation, Kate and Richard Wolters Foundation, Council of Michigan Foundations***

Businesses: ***Amway, PNC Bank, West Michigan Whitecaps, Crowe Horwath LLP, Varnum, Riddering, Schmidt & Howlett, Steelcase Inc, individuals and companies in the private venture capital and investment fields***

Local/State Associations: ***Talent 2025 (an organization of 70 CEOs in a 13 county region) and its Early Childhood Committee, Grand Rapids Area Chamber of Commerce, First Steps Commission ([a cross-sector community collaborative dedicated to early childhood](#)), Great Start Collaborative and its Executive Team, the Early Childhood Investment Corporation (ECIC) representing a network of Great Start Collaboratives and Great Start Parent Coalitions for 83 Michigan counties as well as administrators of the Great Start to Quality, quality rating and improvement system.***

Local circumstances that encourage interest among stakeholders:

Current governmental fiscal situations make the likelihood of increased government spending very [small/unlikely](#). However, there is compelling evidence that certain social programs can reduce governmental expenditures. Because of this, governments need to identify and implement different models of funding. This includes reallocation of existing funds, but also new revenue sources, to demonstrate sustainable success. Social impact bonds are a potential source of new revenue with unique leverage to ensure that program outcomes have a demonstrated return on investment. [First Steps Kent, the backbone organization for the community early care and education system, has spent](#)

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the last eight years working to integrate and coordinate the system of early care and education on behalf of young children and their parents in Kent County. In addition,

~~Fortunately,~~ West Michigan is blessed with active and committed business and philanthropic communities that foster a climate of innovation. Business-integrated community involvement “creates a corporate giving synergy that melds commerce and charity.” The involvement of business and philanthropy in First Steps Kent and Talent 2025 has brought regional interests together, both in early childhood and workforce pipeline development.

~~Additionally,~~ Kent County’s business and philanthropic communities have been actively engaged in advocating for policy change and sustainable funding for high quality, proven effective early childhood services. Organizations like Business Leaders for Michigan, Children’s Leadership Council, Center for Michigan, Talent 2025 and the Grand Rapids Area Chamber of Commerce all have been deeply engaged in supporting early childhood locally, regionally and statewide. The Council on Michigan Foundations has been exploring social impact investing as well as other innovative funding strategies. With the breadth of such experience, this community is **ready to move from learning to action**.

Kent County recently completed its Community Plan for Early Childhood, developed community level indicators and aligned them with common program outcomes to monitor progress and impact. We are a data driven community where funders and programs alike focus on relevant results. After engaging the community in developing the plan, interest in social impact bonds was piqued as a sustainable funding source for implementation, a means to improve accountability of service providers, improved performance at lower costs and to accelerate adoption of innovative solutions to entrenched community problems.

Kent County’s partnership with the **ECIC** make it well positioned for a statewide learning community to explore potential partners in replication of SIBs. The **network of Great Start Collaboratives** throughout Michigan’s 83 counties represents additional potential partners and advocates for SIB. Another important partnership is with the **Michigan Department of Education’s (MDE) Office of Great Start (OGS)**. The current Deputy Superintendent, Susan Broman, is the former Steelcase Foundation President, former KCFCCC Chair and a former member of the First Steps Commission (board).

Finally, two other potential partnerships related to SIBs could foster a regional and/or an East-West approach to collaboration, fostering a learning community and potential replication of multiple chosen strategies. Although tight timelines precluded specific joint strategies prior to the RFI deadline, philanthropic, business and nonprofit partners such as Starfish Family Services and the Fisher Foundation in the Detroit/Wayne County area and Ready for School and its business partners in the Holland-Zeeland metro area (Ottawa County) stand ready to work with First Steps, Talent 2025 and their multiple philanthropic partners on the strategies and policies chosen by the state for its SIB work.

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